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DEPT FOR AF/S/MTABLER-STONE; AF/EPS; EB/IFD/OMA
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¶1. (U) Summary. This is Volume 7, issue 04 of U.S. Embassy Pretoria's South Africa Economic News weekly newsletter.

Topics of this week's newsletter are:
- Blackouts Hit South Africa
- Telkom Prices Hold SA Back
- Mexico Looks to SA for Grain
- New Law on Captive-Bred Animals
- SA GM Crops Soar by 180%
- Consumer Inflation Steady
- Manual Launches R600m Survey
End Summary.

Blackouts Hit South Africa

¶2. (U) SA was hit by widespread power outages that affected five provinces on January 18. Although these outages were cleared after a few days, their occurrence has given rise to concerns about the adequacy of electricity supply over the next few years and the likely impact this could have on critical operations and future investment in energy-intensive industries. SA generates some 50% of the continent's electricity and is heavily reliant on power to drive its energy-intensive economy, including mines, smelters, refineries, and factories. According to the spokesman for the state-owned utility Eskom, six stations failed including one unit at the Koeberg nuclear power facility. As a consequence, about 9,500 MW of Eskom's 36,800 MW of generating capacity were not available during the power failure. The cause of the failure is thought to be the automatic shutdown of the Koeberg unit (900 MW), which overloaded a system already experiencing unplanned and planned outages. Other fingers point to poor government and management planning, a shortage of skilled technical staff, and coal delivery problems. An investigation into the cause of the outages is in process. Regardless of the reason, SA is in for a difficult power supply period until new capacity comes on line in 2008. While the international norm for spare generation capacity is 10%-15%, SA's spare capacity is well below 10% and some authorities believe it to be as low as 2%, leaving little margin for unplanned supply cuts. Government has budgeted $14 billion to upgrade generation capacity by 8,000 MW over the next five years, with the first new power supply due in 2008. Until then SA seems set for planned load shedding. (Business Day, January 19)

Telkom Prices Hold SA Back

¶3. (U) Reuters, the media and information provider that is one of the 100 largest companies listed on the London Stock Exchange, said Telkom's continued high telecommunication prices and low-quality bandwidth are deterring it from ploughing more money into SA. While Reuters has been expanding in countries such as India, Chief Executive Officer (CEO) Tom Glocer said his company was reluctant to do the same in SA because of Telkom's high prices and poor bandwidth. The statement from Glocer, in an interview during a brief stop in SA, will add to the pressure on government to inject new energy into sluggish efforts to promote telecommunications competition and foreign investment. This also underlines recent research from economist and telecoms consultant Paul Cole, which shows that local consumers are paying 440 times more than they should for voice and data calls. Glocer said if the telecommunication cost weakness was addressed, it would precipitate far greater investment from Reuters as SA had many advantages over other emerging markets, including stronger infrastructure, a well-run economy and sophisticated financial markets. He said call center jobs that could have been SA's had already been lost due to these high costs. Glocer's comments add to complaints from other groups. Last year, the South African Contact Centre Community told Parliament that SA could potentially lose 100,000 new call center jobs because of high telecom costs, as global call center companies choose to operate in countries where costs were lower, such as India and the Philippines. Eighteen months ago, international telecommunications group AT&T said it did not plan to increase its South African investment because of high costs, primarily in telecommunications. President Thabo Mbeki has also repeatedly highlighted the high costs of telecom in SA. (Business day, January 17)

Mexico Looks to SA for Grain

¶4. (U) Afgri Ltd., which trades approximately a quarter of SA's grain, said buyers from Mexico have asked for a quotation on a shipment of about 100,000 metric tons of white corn. "That's about three boat loads," Wouter Mentz, Managing Director of Afgri4s trading unit, said on January 18. According to Mentz, the interest from Mexico, where white corn is used to make tortillas, may have resulted in the 6.6 percent gain in South African prices this year. The order may be filled over the next 30 days. In the current marketing year, which started in April 2006, SA has only exported white corn to African countries, with neighboring Zimbabwe the biggest buyer with 105,007 tons, or one-third of all shipments. SA accounted for all the 1.78 million tons of grain exported from Africa in 2006. (The Herald Mexico Edition, January 19)

New Law on Captive-Bred Animals

¶5. (U) The South African Government (SAG) will implement a new hunting law in March 2006, which is likely to impose a ban on hunting captive-bred animals. The norms, standards, and regulations relating to the management of large predators will be implemented with the National Environmental Management and Biodiversity Act 10 of 2004 (NEMBA). The animals to be protected include lions, leopards and cheetahs, which are raised in captivity and then later released into the wild to be hunted for trophies. The breeders of these animals feel that once the law is implemented they may lose the safari market, mostly American and British hunters, to other countries like Tanzania where hunters may have to pay $60,000 to shoot a lion, compared to $15,000 - $25,000 in SA. The breeders also argue that closing the industry would have a negative economic impact on local villagers who sell their donkeys to feed the predators. Predator hunting is reported to be a one billion rand industry in SA, with approximately 300 breeders keeping nearly 5,000 lions. Meanwhile, the SAG has been receiving increased pressure from animal rights activists and the general public to ban "canned" hunting because it is regarded as cruel and unethical. The activity involves the shooting of captive-bred predators, lured by sound or

scent into an area where escape is impossible. (Business Day, January 17)

SA GM Crops Soar by 180%

¶6. (U) According to figures released by the International Service for the Acquisition of Agri-Biotech Applications (ISAAA), the production of Genetically Modified (GM) crops in SA - maize, soya and cotton - last year totaled 1.4 million hectares, an increase of 180% over the 500,000 hectares in 2005. "The increase was the second highest percentage increase of any country in the world surpassed only by India with a 192% increase," ISAAA said. ISAAA noted that SA was also a major producer of GM maize seed produced by numerous commercial and emerging farmers. "These achievements, in no uncertain terms, reflect the trust and confidence of thousands of South African commercial and emergent farmers and consumers in crop biotechnology as the leaders in Africa of this unique agricultural technology," Lourie Bosman, president of a local farming body, Agri SA, said. (I-net Bridge, January 23)

Consumer Inflation Steady

7.(U) According to data released by Statistics South Africa (StatsSA) on January 24, SA's targeted CPIX (Consumer Price Index excluding interest rates on mortgage bonds) inflation was steady at 5% year-on-year in December, slightly below forecasts. Analysts said the steady CPIX, measuring 5% for three consecutive months, reduced pressure on the central bank to raise interest rates again when its Monetary Policy Committee (MPC) meets in February. "We now think it's unlikely that the CPIX will breach the upper limit of the target (3% to 6%) and it could encourage the MPC to leave interest rates unchanged at the next MPC meeting," Nedbank economist Magan Mistry said. The central bank has forecast CPIX to breach the upper end of the target range in April 2007, but sharp falls in fuel costs on the back of lower international crude oil prices may slow inflation in the months ahead. (Mail & Guardian, January 25)

Manual Launches R600m Survey

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8.(U) A R600 million community survey which will collect demographic, geographic, social and economic data was launched by Finance Minister Trevor Manual on January 22. The survey, the first of its kind in SA, is the largest household survey after the census survey in 2001. The survey will be undertaken by Statistics South Africa (Stats SA) from February 7 to February 28 and the results are expected to be published by October 2007. Manuel encouraged all South Africans who would be participating in the survey to share knowledge of their households and of themselves. "It is important for people to understand the value of this community survey," Manuel said. The survey will produce data that can be used to assess the impact of socioeconomic policies, measure service delivery and provide an indication as to how far the country has gone in eradicating poverty. (Fin24, January 22)

FDI in SA Slowing Down

¶9. (U) Recent data released by the United Nations Conference on Trade and Development (UNCTAD) revealed a drop in foreign direct investment (FDI) in SA by 43% last year. The release showed FDI had fallen from $6.4 billion in 2005 to $3.7 billion in 2006. Chief economist for Econometrix questioned the figures explaining that Barclays' acquisition in 2005 of Absa accounted for a large portion of foreign investment, which helped to catapult SA's FDI from $0.8 billion in 2004 to $6.4 billion in 2005. Although Barclay's acquisition was a "big jump" for foreign investment in 2005, it does not accurately reflect the steady growth in the SA economy. (Cape Argus, January 25)

BOST